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C O N F I D E N T I A L SECTION 01 OF 02 LILONGWE 000750

SIPDIS

STATE FOR AF/S KENDRA GAITHER

E.O. 12958: DECL: 08/31/2015

TAGS: [EAGR](#) [ECON](#) [EAMD](#) [MI](#)

SUBJECT: SACHS AND FERTILIZER IN MALAWI

REF: LILONGWE 693

SUMMARY

1. (C) The UNDP's recently issued Flash Alert on Malawi's food crisis contains a plan for providing free fertilizer and seed for 2 million farmers this growing season. The plan has received practically no support among local agriculture and food experts in Malawi, for reasons that Embassy views as reasonable. Embassy recommends USG not support the fertilizer/seed plan as is but push for something closer to the GOM's more modest plan. End summary.

GENESIS OF THE UNDP ALERT

2. (U) The UNDP's "Flash Alert" on Malawi is, in part, the outgrowth of a recent visit by UN advisor Jeffrey Sachs, in which he announced a plan to offer free fertilizer and seed to virtually all smallholder farmers in the country. The alert contains two "tracks": the first is an appeal for food aid to fill an identified gap of upwards of 270,000 MT; the second is an appeal for an additional \$36 million to provide the free inputs (chemical fertilizer and maize seed) for 2 million smallholder farmers.

3. (U) The input scheme is meant to prevent another food crisis next year, following on this year's disastrous harvest and accordingly meager resources for the 2005/6 planting season. The main argument for the plan is simple: it is cheaper to fund fertilizer this year than food next year. Sachs argues that more nitrogen in the soil will equate to higher disposable income and thus higher domestic savings, which will in turn drive economic growth.

4. (C) The UN advisor's team and the Ministry of Agriculture arrived at the scheme practically in secret, in advance of Sachs's visit, with no broader discussion or comment from experts. After Sachs had briefed the GOM, he then briefed representatives from diplomatic and development missions (at the insistence of those missions), ostensibly to discuss the plan. The discussions were anything but substantive, though, as it became clear early on that Sachs was not holding the plan up for open discussion. Sachs portrayed the choice as one between implementing his plan and letting millions of poor farmers starve.

REASONABLE OBJECTIONS

5. (C) The UNDP plan has met mostly with resistance from agricultural and economic experts outside the Ministry of Agriculture and UNDP. The arguments against the plan stem from the long and mostly unproductive history of free input schemes in Malawi. The principal arguments are:

-- Free fertilizer will leak onto the commercial market, both within and outside Malawi, disrupting commercial importation and distribution by undercutting prices. This can rapidly undo hard-won progress in building a free market in agricultural inputs.

-- Distribution of maize seed and chemical fertilizer will encourage continued reliance on soil-depleting agricultural practices and crops. The progress Malawi has made in crop diversification and other best practices may be undone as the plan creates incentives to grow chemically fertilized maize.

-- The plan does not address the fundamental problem in Malawi's food supply, namely the reliance on rain-fed agriculture using drought-sensitive crops.

-- With limited resources, fertilizer is best targeted to upper-end smallholders, who are more likely to have the resources and knowledge to apply fertilizer effectively.

-- Fertilizer subsidies have an involved political history in Malawi and are addictive to populist politicians looking for

votes, particularly those from the main opposition party (Malawi Congress Party). Subsidizing fertilizer for one year--or any limited time--is thus practically impossible.

WIDESPREAD RESISTANCE, INCLUDING GOM

16. (C) The GOM's reaction to the UNDP plan has been measured. The Ministry of Agriculture has always favored heavily subsidized, state-run importation of inputs, and helped to write the plan. On the other hand, Finance Minister Goodall Gondwe has consistently opposed free input schemes on the grounds that they create a dependency culture and are fiscally irresponsible. Under his leadership, the GOM deliberately structured a partial subsidy to sell fertilizer at MK 950 (\$7.85) per 50-kg bag to smallholders. This purely agricultural subsidy would be supplemented by a cash-for-work public infrastructure program as a safety net. But since UNDP has offered a fully funded plan, his philosophical opposition has softened (still, he has insisted that he favors the plan only if GOM has no funding role).

17. (C) Other diplomatic and aid missions generally oppose the UNDP plan. The UK's Department for International Development director for Malawi, an architect of the partial subsidy, has vigorously criticized the Sachs plan. Other donors' local food and agriculture experts, including the World Bank, EC, Norwegians, and the WFP, have all expressed opposition to the plan as well. We have heard from a World Bank source that the local UK and EC envoys have made moves to block funding from their capitals. In any case, it is probably impossible to fund and implement the plan effectively at this late date.

COMMENT: OPEN THE DISCUSSION ON TRACK 2

18. (C) The urgent need for food aid to Malawi in the current season is unquestionable, and indeed Embassy has declared a slow-onset emergency here (see reftel). The "second track" of the UNDP alert is a different story: it is a controversial plan, hatched with an apparently deliberate failure to consult beyond a very small circle of interested parties. We view the opposition to the plan as reasonable, as evidenced by its somewhat surprising breadth. Embassy therefore recommends that the USG not support the UNDP alert's "track 2," but rather open the discussion to reach a more sustainable course of action. Embassy believes the GOM's approach, using a modest fertilizer subsidy and a safety net program, represents a good point of departure.
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